# LEGISLATIVE SERVICES AGENCY
## OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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## FISCAL IMPACT STATEMENT

**LS 7957** **DATE PREPARED:** Apr 16, 2001
**BILL NUMBER:** SB 457 **BILL AMENDED:** Apr 12, 2001

**SUBJECT:** Community Revitalization Enhancement Districts.

**FISCAL ANALYST:** Bob Sigalow; Jim Landers
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**FUNDS AFFECTED:** X GENERAL
X DEDICATED
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill provides that the legislative body of a county may adopt an ordinance designating an unincorporated part of the county as a community revitalization enhancement district (CRED), and the legislative body of a municipality located within the county may adopt an ordinance designating a part of the municipality as a CRED, if: (1) the county's annual rate of unemployment has been above the average annual statewide rate of unemployment during at least three of the preceding five years; (2) the county median income has either declined over the preceding ten years or has grown at a lower rate than the average annual statewide median income during at least three of the preceding five years; (3) the population of the county has declined over the preceding ten years; and (4) certain other criteria (size of empty buildings, job loss, and specified obstacles to redevelopment) are met.

The bill permits the executive of a municipality in St. Joseph County or Allen County to submit an application for the establishment of a CRED in the municipality if the submission of the application is approved by ordinance or resolution of the municipality. It permits the establishment of a CRED in St. Joseph County and in Allen County if certain criteria are met.

This bill also provides that in a county other than Marion County, a professional sports development area may be established by a second class city before July 1, 2002.

**Effective Date:** July 1, 2001.

**Explanation of State Expenditures:** (Revised) Under current law, CREDs may be established only in Delaware County and parts of Monroe County. This bill would allow the creation of additional districts in counties that meet certain unemployment, income, and population tests and certain other criteria.

After notification of a designation of a CRED by an advisory commission on industrial development, the Budget Committee must review and the State Budget Agency must recommend the designation of the area.

The Department of State Revenue (DOR) must calculate the income tax base period amount and the gross retail base period amount for the district. The Treasurer must establish an incremental tax financing fund in a county where the county or a municipality establishes a district. Money in the fund does not revert to the General Fund at the end of the fiscal year. Annually, the DOR and the Budget Agency must estimate and certify the amount of income tax and sales tax which will be collected from the district.

**Explanation of State Revenues:** *Community Revitalization Tax Credit:* Taxpayers in the CRED may receive a Community Revitalization Enhancement District Tax Credit. The bill would extend the credit to districts in additional counties. The credit is available for qualified investments made for the redevelopment or rehabilitation of property located within a district. The expenditures must be made under a plan adopted by an advisory commission on industrial development and approved by the Indiana Department of Commerce.

The tax credit is based on 25% of the qualified investment. The tax credit may be used to reduce the taxpayer's tax liability under the following taxes: Gross Income, Adjusted Gross Income, Supplemental Net Income, County Adjusted Gross Income, County Option Income, County Economic Development Income, Bank, Savings and Loan Association, Insurance Premiums and Financial Institutions. The taxpayer may carry any excess credit over to the immediately following years, but is not entitled to a carryback or refund of any unused credit. A taxpayer may assign any part of the credit to a lessee of the property redeveloped or rehabilitated but must be in writing and reported to the Department of State Revenue.

A taxpayer is not entitled to a credit if they substantially reduce or cease to operate in another area of the state in order to relocate within the district.

This tax credit is similar to the existing Industrial Recovery Site/Dinosaur Credit Program. (However this new tax credit is more restrictive due to the requirements specified in the bill.) Since the Industrial Recovery Site credit was established in 1987 through 1999, 30 buildings were approved for approximately $29 M in credits. These credits were based on an estimated $133.3 M of qualified investments. The credits ranged from $50,000 to $9 M with the average credit being approximately $1 M for an average of $5 M of qualified investments.

*Tax Increment*: Currently, up to $1 M of the incremental taxes which are generated in a CRED are captured. This revenue is transferred to the district's Industrial Development Fund. The covered taxes which are included are Sales Tax, Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, County Adjusted Gross Income Tax, County Option Income Tax, and County Economic Development Income Tax. State sales and income taxes are generally deposited in the State General Fund and Property Tax Replacement Fund. The State forgoes any new income or sales tax revenue up to $1 M which would be generated by the development in each community revitalization enhancement district. If new districts are created in the additional counties specified in this bill, then those districts would also receive incremental revenue with a corresponding reduction in state revenue. The tax loss from the establishment of these districts is restricted to five years or less.

*PSCDAs:* The bill would extend the deadline for second class cities to establish Professional Sports and Convention Development Areas (PSCDAs) until July 1, 2002. Under current law, the deadline for establishing a PSCDA was July 1, 1999.

PSCDAs are special zones in which certain state and local tax revenues earned in the area are diverted and deposited into a special fund. This fund is dedicated for capital improvement in the development area. The taxes from which state revenue may be captured in PSCDAs are the Gross Retail Tax and the Individual

Adjusted Gross Income Tax. The amount of state revenue which may be captured is currently limited to $5 for each resident of the establishing unit, and any collections in excess of the maximum allowed would be realized as normal collections.

Of the 16 second class cities, three (Evansville, Ft. Wayne, and South Bend) already have PSCDAs. Ft. Wayne is included within the Allen County PSCDA. The actual number of new PSCDAs that may be established under the bill is indeterminable. However, two areas have been identified where new PSCDAs could be created due to the deadline extension. It is possible that an area could be established to include Don McBride Stadium in Richmond. In addition, the city of Gary has been awarded a Continental Basketball Association franchise which began competition in the fall of 2000.

If the facilities in Richmond and Gary meet the other requirements for PSCDAs, at least two new areas could be established under this proposal. However, local units would still have to adopt a resolution establishing the PSCDAs. The Budget Committee must also review any resolutions and the Budget Agency must approve them before revenues are diverted. The amount of state revenue which may be captured would still be limited to $5 for each resident of the establishing unit, and any collections in excess of the cap would be realized as normal collections. Based on *Census 2000* population totals, the capture limit for the potential PSCDA in Richmond would be $195,620 and for the potential PSCDA in Gary $513,730.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) *CRED*: This bill would allow the creation of community revitalization enhancement districts in a county if the county meets unemployment, income, and population tests. Based on historical data, six additional counties could qualify for district designations under this bill (assuming that historical unemployment, income, and population trends continue). The counties that could qualify are Fayette, Grant, Knox, Perry, Vigo, and Wabash Counties. Certain other conditions must also exist to qualify as a district. The area must have an aggregate of at least 50,000 square feet of vacant floor space. There must be significant obstacles to redevelopment and there must be significantly fewer employees in the area than 10 years before.

The legislative body adopting the ordinance to create a district would determine the duration of the district, not to exceed 15 years.

Additionally, the bill would allow the creation of districts in Allen and St. Joseph Counties if certain conditions exist. In Allen County the area must have at least 800,000 square feet of floor space with at least 50% of it vacant. There must be significant obstacles to redevelopment. There must be 400 fewer employees in the area than 15 years ago, and the taxing unit must have appropriated or pledged $250,000 for addressing the redevelopment obstacles.

In St. Joseph County, the area must have at least 1.5 M vacant square feet of floor space. There must be significant obstacles to redevelopment. There must be 18,000 fewer employees in the area than before the time of application, and the taxing unit must have appropriated or pledged $100,000 for addressing the redevelopment obstacles.

An ordinance to designate an area as a CRED must be approved or a resolution adopted by the legislative body of a municipality before an application can be made to an advisory commission on industrial development. An advisory commission on industrial development who is considering the designation of this type of district must have three additional members appointed by the Governor, the Lieutenant Governor and the Director of the Department of Workforce Development.

*Tax Increment*: Currently, incremental taxes which are generated from new development in the district may be captured and deposited into the Industrial Development Fund. The local taxing units which would normally receive a share of the total local option income taxes generated in the districts under current statute will not receive the incremental revenue generated. Money in the Industrial Development Fund to be pledged by the advisory commission to pay debt service on bonds and to maintain a Debt Service Reserve Fund.

The establishment of a CRED in the additional counties and the capture of these incremental taxes will be subject to local action and the ability of a community to meet the requirements set out in the bill.

*PSCDA*: Under current law, revenue from the local Food and Beverage Tax and the County Option Income Tax attributable to PSCDAs also may be captured for capital improvement, and there is no limit on the amount of local taxes that may be captured. Currently, these taxes are not imposed within Gary or Richmond.

**State Agencies Affected:** State Budget Agency, Department of State Revenue, Indiana Department of Commerce.

**Local Agencies Affected:** Allen, Fayette, Grant, Knox, Perry, St. Joseph, Vigo, and Wabash Counties; Second class cities.

**Information Sources:** *inews*, Indiana Department of Workforce Development, 1/16/2001; Bureau of the Census; STATS Indiana, Indiana Business Research Center; *Census 2000,* U. S. Department of Commerce; Indiana Handbook of Taxes, Revenues, and Appropriations, FY 2000.